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C O N F I D E N T I A L SECTION 01 OF 04 PANAMA 001700

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DEPARTMENT FOR WHA/CEN WHA/AND

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TAGS: [PREL](#) [PGOV](#) [ECON](#) [ETRD](#) [PM](#) [POL](#) [CHIEF](#)

SUBJECT: WHERE IS PANAMA'S NEW GOVERNMENT HEADING?

REF: A. PANAMA 1537

[B](#). PANAMA 1116

[C](#). PANAMA 0802

[D](#). PANAMA 1274

[E](#). PANAMA 1396

Classified By: AMBASSADOR LINDA WATT FOR REASONS 1.5 (B) AND (D).

#### SUMMARY

[1](#). (C) Martin Torrijos and his inner circle, due to take power on September 1, are pushing an energetic and ambitious transition agenda featuring clear-cut goals in foreign policy (priority to the U.S. and Colombia), security (cooperation with U.S. objectives, new attention to the Caribbean coast), the economy (free trade agreement, Canal reconstruction, social security reform, making Panama a regional focal point for investment, eco-tourism, and transshipment), and politics (constitutional reform). (See Refs B and C for background.) They have publicly named only a few cabinet members (see Ref A) so far but have floated names for Minister of Government and Justice and for Ambassador to the U.S. The Torrijos inner circle -- Vice President/Foreign Minister-designate Samuel Lewis Navarro, Minister of the Presidency-designate Ubaldo ("Uba") Real, and Minister of Commerce-designate Alejandro ("Andy") Ferrer -- all FOMs ("Friends of Martin"), have repeatedly told us that the new government will take a strong anti-corruption stand that will begin with cleaning up Panama's notoriously deficient Supreme Court (Ref D) and have asked for our "help," without being more specific. If the new Torrijos government prevents officials from using their offices for personal gain, and if it makes an attempt to run a clean government and establishes a respected, politically neutral Supreme Court that would mark a change of revolutionary proportions in Panama. Despite the good intentions of the Torrijos inner circle, anticipated pressures from a well-entrenched oligarchy could frustrate these plans. End Summary.

#### "Don't Step Out of Line"

[2](#). (C) The Ambassador's late-May meeting with Martin Torrijos (Ref E) and numerous subsequent Emboff discussions with FOMs have confirmed the Embassy's view that the new government is pursuing an energetic, ambitious agenda that aims at making permanent changes and improvements in Panama. At that meeting Torrijos made clear that he would not tolerate deviations by cabinet members from his pro-U.S., anti-corruption policies, and he will not hesitate to fire those who step out of line. Public expectations are high, perhaps impossibly so, that Torrijos will break decisively with the now-discredited, out-going Moscoso government's corruption and inefficiency. Torrijos has done nothing so far to disappoint in his few cabinet appointments and in his intensive strategic planning during the transition period. Following is a subject-by-subject analysis of issues that the Torrijos team has emphasized in private conversations with Emboffs.

#### Foreign Policy -- A Focus On the U.S.

[3](#). (C) As the Torrijos team has emphasized many times, relations with the United States will be the new government's top foreign policy priority, with emphasis on security and law enforcement matters. Frederic "Freddie" Humbert Arias is the probable nominee for ambassador to the U.S.; the Torrijos team plans to ask the current government to send an agreement request ASAP. (Strictly protect -- this is still close-hold.) Humbert, a long-standing FOM and La Prensa newspaper president with interests in shipping and shrimp fishing, is young, energetic, and has excellent connections with US press and international organizations. Torrijos believes that Humbert has the personal skills to network Congress and other power centers in Washington. (Note:

Following a request from Samuel Lewis during his May 2004 visit to Washington, NSC is exploring whether a Torrijos-President Bush meeting may be possible before September 1.)

#### Colombia is a Priority

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14. (C) Torrijos has traveled as candidate and as president-elect to Spain (where he met former president Aznar), Mexico (where he recently met President Fox), Costa Rica, and Brazil. (Note: Torrijos plans to travel to Paris, Madrid, Brussels, and Berlin in mid-July. He will also travel to Argentina, Brazil, and Chile in mid-August.) Torrijos traveled to Colombia to meet with Colombian President Uribe shortly before and shortly after Panama's May 2 election. Panama's most important issues with Colombia are security, illegal immigration and job displacement, and drug trafficking. The Torrijos-Uribe personal chemistry was described as "very good," (as was the Torrijos-Fox chemistry). Uribe and Torrijos discussed possible fallout from Colombia's "Plan Patriota," a Colombian military offensive currently focused on Colombia's south. Uribe pledged to warn Torrijos when the offensive moves north, where it could affect security on the Panamanian side of the border. Uribe reportedly was shocked when Torrijos told him that between 250,000 and 300,000 Colombians are living in Panama, most of them illegally. (Colombian estimates were one-third of that number.) The ELN peace negotiations figured prominently in their recent talks, and Torrijos has left open the possibility that Panama may serve as a neutral site for the GOC/ELN negotiations. Uribe pitched the idea of building a highway and an electrical transmission line through Panama's eastern Darien province. Torrijos promised to "study" the matter.

15. (C) (Comment: The two nations never have had a road link. For environmental and security reasons, the Panamanians probably will want to keep it that way. Currently, the Pan American Highway ends in Yaviza in Panama's Darien province, not far from a national park that skirts the border. Electrical power reportedly is cheaper in Colombia than Panama, which lacks adequate investment in power generation, two reasons why a cross-border transmission line may be attractive to the Torrijos government. But power line construction probably will bring a road along with it, which the Panamanians want to avoid. End Comment.)

#### Security

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16. (C) This Embassy, in conjunction with the Center for Hemispheric Defense Studies (CHDS) and the Torrijos team, is organizing an August 11-13 bilateral "National Security Planning Workshop" to encourage the new GOP to focus on security issues in general (such as border, canal, police, and narcotics) and on cooperation with the USG in particular. Reception by both sides to the workshop has been highly positive and planning is already well advanced. (See Septel.) Torrijos's Democratic Revolutionary Party (PRD) is the Panamanian party traditionally most focused on security matters, but Torrijos planners admit that they have not progressed very far in terms of their overall security strategy. Torrijos contacts for security planning are (legislator) Hector Aleman and (former PDF officer) Daniel Delgado. In private, even these members of the PRD "Old Guard" have pledged close cooperation with the USG on national security and law enforcement issues. To enhance GOP control over its Caribbean north coast and improve its intelligence, and attract more teachers and doctors to the area, FOMs have floated the idea of starting regular fixed-wing air service to selected World War Two-vintage air strips near the coast.

#### The Economy

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17. (C) The Moscoso Administration is leaving a strongly growing economy. Growth last year was 4.1% (vs. 0.6% in 2001); the optimistic forecast for 2004 is 4.5%. Nominal GDP in 2003 was \$12.8 billion or around \$3,900 per capita. The incoming Torrijos government initially will face tight budget constraints, with short-fuse imperatives to make Panama's Social Security Fund solvent and launch a strategy on Canal expansion. FOMs often have expressed concern about the state of public finances after September 1 and are worried that they could inherit up to \$300-600 million in accounts payable from the Moscoso administration. (The year-end budget deficit could top 3%, exceeding the 2% legal maximum.) The Finance Ministry's (MEF) welcome decision to cut spending by \$361 million (\$125m in current expenditures, \$113m in capital expenditures, and \$123 million in public enterprise

expenditure) was probably already vitiated by the Moscoso administration's pre-election spending (e.g., subsidizing electricity) and below-forecast tax revenues. Torrijos's party (with its previous populist focus) vastly increased public employment in the 1970s and 1980s, now would like to reduce the government's role. One senior Torrijos insider noted that the GOP currently employs 181,000 people, quite extraordinary for a country of 3.1 million.

#### Debt Service Unaffected

18. (C) Rating agencies agree that the deficit will not affect Panama's ability to service its large debt load, which Panamanian governments treat as a priority. International observers will only be concerned if Torrijos does not act soon to reform the actuarially bankrupt social security system and appoint competent leadership at MEF, which he plans to do. Currently, the leading candidate for minister is Ricaurte "Catin" Vasquez, now Deputy Canal administrator. (Note: Vasquez would bring considerable experience and expertise to the job, having served as Minister of Planning and Economic Policy 1984-1988, and as chief negotiator for Panama's debt refinancing program in 1995.) Although it will be costly in political capital, the Torrijos inner circle plans to make social security reform a top priority early on, to get rid of a millstone that could destabilize Panama's finances by 2010-2014.

#### Free Trade Agreement

19. (C) Led by Minister of Commerce and Industries-designate Alejandro Ferrer, the new GOP will be pro-trade liberalization, strongly supportive of a bilateral FTA, and less beholden to agricultural interests than the Moscoso government. But for now they are willing to let the current government carry the flag for now. The new GOP will have the task of ratifying the FTA. The new GOP plans to have a coherent overall economic policy, which will include making Panama an investment, eco-tourism, and transshipment magnet, where trade policy will be one important component.

#### Canal Expansion

10. (C) The new GOP expects this \$5-10 billion (estimates vary widely), 10-year project to be a transforming event for Panama that will provide jobs and set the tone economically for years to come. It plans to make Canal expansion a top priority. A national referendum on the issue is likely in 2005; we are told Torrijos wants the referendum to take place as early as possible. Actual groundbreaking, if the referendum passes, could be three years off.

#### Political Reform

11. (C) In mid-June, Torrijos publicly announced ambitious ideas for constitutional reform (see septel), which crucially involve the cooperation of the out-going Moscoso government and legislative assembly. (The constitution can be amended if two consecutive legislatures back the same provisions.) Somewhat surprisingly, following a meeting with Torrijos, Moscoso called a special legislative session starting July 5 to consider the wide-ranging proposals:

- Reduce the size of the legislative assembly;
- Eliminate one (of two) vice presidents and limit each legislator to one alternate (from two);
- Reduce legislative immunity; permit the Supreme Court to remove a legislator from office without asking the Assembly to lift immunity;
- Permit independent legislative candidates to run for office;
- Halve the transition period between governments to two months;
- Make the Electoral Tribunal financially independent and not subject to Supreme Court oversight;
- Fix the number of Supreme Court justices by law, rather than

in the constitution; Note: Critics have charged that Torrijos will be able to "pack" the Court if the number of justices is set by law because laws are much more easily changed than the constitution.)

-Ban active politicians from serving on the Supreme Court;

-Require greater qualifications for would-be justices and legislators;

-Establish a clear constitutional requirement for referendums on Canal expansion;

-Establish procedures for convoking constitutional conventions.

#### Strategy Seminar

12. (C) Showing that he is serious about planning an efficient government (and despite his lack of haste to announce appointments), in mid-June Torrijos convened a week-long strategy seminar for PRD leaders. The retreat produced good results, insiders said, with 13 working groups (mirroring 13 ministries) hammering out 100-day and one-year action plans, complete with specific goals and benchmarks. Torrijos plans to monitor each minister's progress in meeting his respective objectives.

#### Comment

13. (C) Even more intriguing than the incoming team's confident enthusiasm and apparent efficiency is its avowed and oft-repeated intention to bring lasting change to Panama, especially in eliminating government corruption. FOMs insist that efforts to make the government more honest will founder without a credible, effective, politically neutral Supreme Court. They are entertaining various expedients to cleanse the Court, from mass impeachment to packing it. Expectations of the new government's ability to end corruption are sky-high (and unrealistic). A serious attempt to run an honest government would have revolutionary implications in Panama, overturning the long-accepted consensus among the political class that using one's office for personal gain is acceptable behavior, if not the name of the game. Officials in Panama almost never go to jail for corrupt acts. In a small country, where practically everyone is related by blood, marriage, or friendship a presiding official or magistrate typically finds himself deciding cases that involve relatives or friends. In Panama, "official" actions are construed personally. Government decisions are seldom viewed as solely motivated by a desire to uphold the law, as based on objective facts, or devoid of caprice or arbitrariness. To be willing to act in disregard of personal and political ties implies tremendous change, and will require great courage because it will bring tremendous dissension, even within Torrijos's own party. Until the evidence is in, skepticism of the new government's ability to bring about such sweeping change is justified. (Septel will address Torrijos's proposed constitutional reforms.)

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